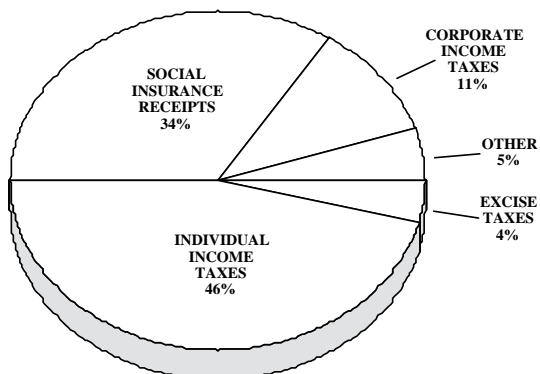


II. PREPARING THE NATION FOR A NEW AMERICAN CENTURY

THE FEDERAL GOVERNMENT DOLLAR FISCAL YEAR 1999 ESTIMATES

WHERE IT COMES FROM...



WHERE IT GOES...

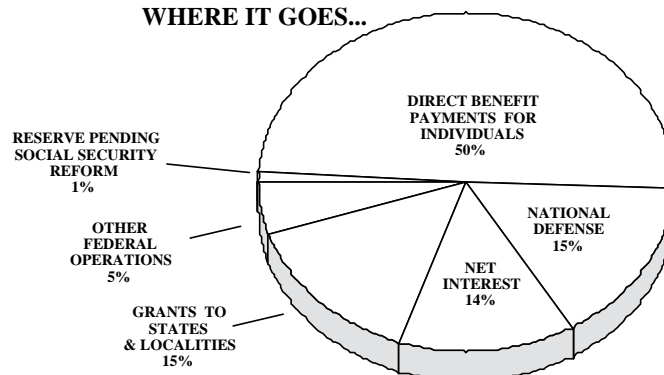


Table II-1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT
(Dollar amounts in billions)

	1997 Actual	Estimates										
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Receipts	1,579.3	1,657.9	1,742.7	1,793.6	1,862.6	1,949.3	2,028.2	2,122.7	2,226.9	2,329.0	2,444.2	2,565.5
Outlays	1,601.2	1,667.8	1,733.2	1,785.0	1,834.4	1,859.6	1,945.4	2,013.4	2,090.2	2,164.6	2,227.9	2,307.0
Reserve Pending Social Security Reform	NA	NA	9.5	8.5	28.2	89.7	82.8	109.3	136.7	164.3	216.3	258.5
Deficit (-)/Surplus	-21.9	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On-Budget Deficit (-)	-103.3	-106.3	-95.7	-104.9	-94.1	-44.6	-62.8	-44.0	-33.8	-15.1	23.7	55.6
Off-Budget Surplus	81.4	96.3	105.3	113.5	122.3	134.4	145.5	153.3	170.5	179.4	192.6	202.9
As Percentages of GDP												
Receipts	19.8	19.9	20.1	19.8	19.7	19.7	19.6	19.6	19.7	19.7	19.7	19.8
Outlays	20.1	20.0	20.0	19.7	19.4	18.8	18.8	18.6	18.5	18.3	18.0	17.8
Reserve Pending Social Security Reform	NA	NA	0.1	0.1	0.3	0.9	0.8	1.0	1.2	1.4	1.7	2.0
Deficit (-)/Surplus	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On-Budget Deficit (-)	-1.3	-1.3	-1.1	-1.2	-1.0	-0.5	-0.6	-0.4	-0.3	-0.1	0.2	0.4
Off-Budget Surplus	1.0	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.6	1.6

II. PREPARING THE NATION FOR A NEW AMERICAN CENTURY

Imagine an America in which every child has a world-class education; in which every family can fairly balance the demands of work and child-rearing; in which we lift living standards here and around the world; in which we learn to grow our economy and preserve the common environment which is our home; in which our oldest values of opportunity, responsibility and community guide us into a new time of greatest opportunity.

President Clinton
September 1997

It is, as the President said not long ago, “a time of genuine hope and earned optimism for America.” A country that not many years ago was approaching the 21st Century with uncertainty now looks to it with strength and confidence, with the knowledge that we can make it a “New American Century.”

The Administration’s five years of hard work are paying off. Our economy is strong, our social health is improving, and our place as the world’s undisputed leader for peace and freedom is unchallenged. Our Federal Government is leaner, more efficient, more effective, and more connected to the essential values that Americans share—opportunity, responsibility, and community.

Our economy has grown an average of three percent a year, helping to create over 14 million new jobs. Unemployment is below five percent, inflation is under control, and interest rates are low. Investment growth and consumer confidence are at their highest levels in a generation. Homeownership has hit record levels. And, after two decades in which family incomes remained essentially flat, we are making progress on this most intractable of economic problems as incomes have begun to rise at all levels.

Violent crime has dropped dramatically for five years in a row, and the 1996 drop was the largest in 35 years. The welfare rolls have dropped by record numbers. Poverty and teen birth rates are also down while, all across America, many of our poorest

urban and rural communities are springing back to life.

Around the world, America remains the world’s lone superpower in both military and economic terms. Our forces, our resources, and our international influence have helped to keep the peace in war-torn nations, nurture democratic capitalism in former communist countries, and open markets for our goods.

Perhaps most striking of all, the budget deficit continues to fall dramatically and, with this budget, the President proposes to reach balance in 1999, marking the first balanced budget in 30 years and an end to an era of continuous deficits that spiraled out of control through the 1980s and early 1990s.

Implementing the President’s Agenda

Five years ago, the President took office against the backdrop of a sweeping economic transformation both at home and abroad that was already dramatically changing how Americans lived, how they worked, and how they related to one another. An economy that had shifted from agriculture to manufacturing a century earlier was shifting again, this time from manufacturing to information, technology, and global commerce, challenging the rhythms of American life.

In this new economy, Americans could no longer rely solely on their hard work to earn a good living. Now, they would need the skills to run the computers and other sophisticated equipment that had be-

come the engines of growth. More and more, what they earned in an increasingly competitive economy depended on their knowledge, their creativity, their sense of innovation.

In early 1993, as one Administration replaced another, the Federal Government seemed ill-prepared to meet the challenges that lay at the Nation's doorstep, paralyzed by a seemingly intractable quandary—how to reverse more than a decade of record-setting, and still rising, budget deficits and a soaring national debt.

In sheer dollars, the Nation had never seen anything like it. The deficit, which had grown to worrisome levels in the mid-to late 1970s, soared in the early 1980s—first to over \$100 billion, then quickly to over \$200 billion. America faced the prospect of \$200 billion deficits “as far as the eye could see,” in the words of David Stockman, President Reagan's Budget Director. Over the next decade, Presidents and Congresses, together or on their own, tried to bring the deficit under control, but a structural mismatch between revenues and spending continually out-paced their efforts.

Year after year, the task of cutting the deficit cast a shadow over domestic, defense, and international policy. In that era, virtually every policy proposal from the Administration, Congress, or the private sector first elicited the question, “How will it affect the deficit?” The sheer merit of a proposal (e.g., to grow the economy, to address a social problem) often fell victim to Washington's all-consuming calculation of short-run cost.

President Clinton understood the need for deficit reduction, and he exerted the leadership to get it. But he understood just as clearly that deficit reduction would not suffice. While reducing the deficit, he would also invest more in the skills and training of the American people, and he would push aggressively to expand markets for U.S. goods.

The President's 1993 economic plan, which he worked with Congress to enact, was the centerpiece of his strategy. It slowed the growth of entitlements, raised taxes almost entirely on the wealthiest 1.2 percent of Americans, and extended the “caps” on discretionary spending for five years. It cut taxes

for 15 million working families and made 90 percent of small businesses eligible for tax relief. And it began an ongoing effort to invest in education and training and in research in order to boost productivity and, thus, promote higher living standards; to protect the environment and fight crime in order to improve the quality of life for all Americans; and to secure the funds for a global policy that has brought peace to certain troublespots and expanded markets for U.S. goods.

Reaping the Benefits

The three elements of the President's plan—(1) reducing the deficit; (2) investing in the future; and (3) opening markets to expand trade—were never before tried together, and the strategy met its share of skeptics. Opponents predicted that the deficit would rise, not fall, because the economy would sink into recession, or worse. Jobs would disappear, the critics said, while interest rates and inflation would soar.

What happened? All elements of the strategy worked beyond even the Administration's most optimistic hopes. Rather than generate higher deficits, the plan helped cut the deficit beyond expectations. Rather than prompt a recession, the plan helped cut interest rates, spurring steady growth, over 14 million new jobs, record exports, lower unemployment and inflation, less poverty, less welfare, and less crime.

No element worked better than the first—reducing the deficit. The fiscal shortfall had hit a record \$290 billion in 1992, and the Administration projected that, without changes in policy, it would hit \$347 billion in 1997. The President's 1993 economic plan was designed to reduce the accumulated deficits over five years by a total of \$505 billion.

What neither the Administration nor anyone else fully anticipated was how well the economy and economic plan would work together. The plan reassured financial investors, helping to cut interest rates and, in turn, spur growth and jobs. With the economy booming, Federal revenues from corporate and personal income taxes have far exceeded expectations. And, for the same reason, the Federal Govern-

ment has spent less on unemployment and other benefit programs than it anticipated.

Higher-than-expected revenues and lower-than-expected spending closed the deficit gap more quickly than expected. The 1997 deficit came in at \$22 billion, just 0.3 percent of the Gross Domestic Product (GDP). In dollar terms and as a share of GDP, it was the lowest deficit in a quarter-century. (For a full discussion of the President's economic policy, see Section III, "Creating a Bright Economic Future.")

Even within the framework of the President's 1993 economic program, with its annual "caps" on total discretionary spending and its pay-as-you-go rules for financing new entitlements and tax cuts, the Administration worked with Congress on significant investments in education and training, the environment, science and technology, law enforcement, and other priorities to help raise the standard of living and quality of life for average Americans, both now and in the future. For example:

- The President's commitment to expand Head Start put 830,000 disadvantaged children into the program in 1998, helping to prepare these children for school and making further progress toward the President's goal of putting a million children in Head Start by 2002.
- His investments in public schools have helped States and communities raise academic standards, strengthen accountability, connect classrooms and schools to the information superhighway, and promote public school choice by opening over 700 charter schools.
- His national service program has enabled over 100,000 Americans to earn money for college while helping children to read, working with parents to improve their kids' health, creating after-school and summer programs, patrolling the streets, and performing other vital community work.
- His historic investments in higher education, from his new Hope scholarships to his record increases in Pell Grants, are ensuring that anyone who wants to go to college can afford to go.

- His efforts to help older, dislocated workers buffeted by economic change have led to a wider array of Federal retraining benefits and services to which workers can more easily avail themselves.
- His children's health care initiative, the largest investment in health care for kids since Medicaid was created, will provide meaningful benefits to up to five million uninsured children.
- His investments in the environment have protected or restored some of the Nation's most treasured lands, such as Yellowstone National Park and the Everglades, provided the funds to conserve others, and accelerated toxic waste clean-ups.
- His investments in research are helping to build new high-powered supercomputers and to develop drugs that could extend the life expectancy of those with HIV and AIDS.
- His COPS program that supports community policing is putting 83,000 more police (out of 100,000 under the program) on the streets of America's communities, helping to reduce violent crime for five straight years.
- His investments in distressed urban and rural areas have leveraged billions of dollars in private investment, created thousands of jobs, and helped bring communities back to life.

Cutting the Size of Government

How could the Administration both cut the deficit dramatically and invest more in these and other priorities? Not only by building a strong economy that would boost revenues and lower spending on unemployment and other benefits, but also by cutting unnecessary or lower-priority spending, and, led by the Vice President's National Performance Review, by increasing the efficiency and effectiveness of our Government.

Since 1993, the Administration has worked with Congress to limit total discretionary spending, partly by eliminating hundreds of programs and projects. More broadly, in every budget year of this Administration, total spending has equaled a smaller share of

GDP than in any year of the previous two Administrations and, in 1999, spending will drop to 20.0 percent of GDP, its lowest level since the early 1970s. The Administration has cut the size of the Federal civilian work force by over 316,000 people, creating the smallest work force in 35 years and, as a share of total civilian employment, the smallest since 1931.

The Administration, however, is working to create not just a smaller Government, but a better one, a Government that best provides services and benefits to its ultimate customers—the American people. It has not just cut the Federal work force, it has streamlined layers of bureaucracy. It has not just reorganized headquarters and field offices, it has ensured that those closest to the customers can best serve them.

To be sure, the job is not over. For 1999, the Administration once again is turning its efforts to the next stage of “reinventing” the Federal Government. It plans to dramatically overhaul 32 Federal agencies to improve key services, such as improving student loan processing and speeding aid to disaster victims. It also plans to tackle critical challenges, such as ensuring that Government computers can process the year 2000 date change and making more Government services available electronically. (For a full discussion of the Administration’s management agenda, see Section IV, “Improving Performance Through Better Management.”)

Under the 1993 Government Performance and Results Act, Cabinet departments and agencies have prepared individual performance plans that they will send to Congress with the performance goals they plan to meet in 1999. These plans, in turn, form the basis for the first Government-wide performance plan, which the Administration is sending Congress along with this budget.¹

¹The plan describes the Administration’s commitment to fiscal, management, and program performance. Thus, it includes the following sections of this budget—Section III, “Creating a Bright Economic Future”; Section IV, “Improving Performance Through Better Management”; and Section VI, “Investing in the Common Good: Program Performance in Federal Functions.”

Reaching Balance While Investing in the Future

Though the 1993 President’s economic plan had exceeded all expectations in restoring the Nation’s fiscal health, the task of reaching balance would require one final push. That would come with the historic 1997 Balanced Budget Act (BBA), on which the President and Congress agreed last summer.

Along with saving \$247 billion over five years, the Act also extended the solvency of Medicare’s trust fund for at least 10 years while providing for the largest investment in higher education since the G.I. Bill in 1945, the largest investment in children’s health care since the creation of Medicaid in 1965, and a \$500-per-child tax credit for about 27 million working families. It also provided tax incentives to restore distressed urban and rural neighborhoods, launched a \$3 billion Welfare-to-Work jobs initiative, and restored health and disability benefits to elderly and disabled legal immigrants.

While implementing the BBA, this budget builds on the President’s efforts to invest in the skills of the American people. Thus, it continues the President’s policy of helping working families with their basic needs—raising their children, sending them to college, and paying for health care. It also invests in education and training, the environment, science and technology, law enforcement, and other priorities to help raise the standard of living and quality of life of average Americans.

Within tight constraints, the President proposes major initiatives that will continue his investments in high-priority areas—from helping working families with their child care expenses to allowing Americans from 55 to 65 to buy into Medicare; from helping States and school districts recruit and prepare thousands more teachers and build thousands more classrooms to addressing the world-wide problem of global warming. The budget pays for every initiative—in the President’s words, “line by line, dime by dime.”

Families and Children: For five years, the President has sought to help working families balance the demands of work and family, and he proposes a major effort to make child care more affordable, accessible, and safe. His Child Care Initiative provides tax breaks to help families pay for care; tax incentives to help businesses create or expand child care facilities; direct subsidies for over two million poor or near-poor children; increased funding for before- and after-school programs; and funds to help States enforce safety and quality, to train child care staff, to promote early childhood development, and to improve the health of young children in child care. Also to help working families, the President proposes tax incentives to encourage small businesses to create pension plans for more workers.

Health Care: The President has worked hard to expand health care coverage and improve the Nation's health. The budget gives new insurance options to hundreds of thousands of Americans aged 55 to 65 and proposes new initiatives to ensure that as many uninsured children as possible are covered. In addition, it provides for unprecedented investments in biomedical research at the National Institutes of Health; advocates bipartisan national legislation that would reduce tobacco use among the young; expands access to new AIDS therapies through the Ryan White program; enables more Medicare recipients to receive promising cancer treatments by participating more easily in "clinical trials"; expands substance abuse prevention and treatment activities; and enhances food safety. The budget also funds full participation in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which will provide benefits to 7.5 million people by the end of 1999.

Education and Training: The President has worked to enhance access to, and the quality of, education and training. The budget takes the next step—helping States and school districts to reduce class size by recruiting and preparing thousands more teachers and to build thousands more classrooms; and creating new Education Opportunity Zones to provide needed support for high-poverty, low-achieving urban and rural districts while holding them accountable to boost student achievement. The budget also proposes to move further toward the President's commitment to put a million

disadvantaged children in Head Start by 2002; begin field testing voluntary national tests; mobilize and train reading tutors for children; help parents, teachers, and communities create more charter schools that are free of most State regulations; integrate technology into the classroom as we connect every classroom to the Internet; enable more Americans to serve their communities and earn money for college; expand college work-study to a million students; make it easier for parents and students to borrow and repay college loans; raise the maximum Pell Grant college scholarship to its highest level ever; expand assistance to workers dislocated as a result of global trade and technological change; increase G.I. bill educational benefits for veterans; and expand resources for veterans who lose their jobs.

The Environment: The Administration, which helped engineer the global agreement in Kyoto to address climate change, proposes to launch the U.S. effort with tax incentives and spending that will spur energy efficiency and help develop low-carbon emission energy sources. The proposal includes incentives for buying new, highly fuel-efficient cars; for investing in energy-saving equipment for commercial and residential buildings; for commuting by public transit or vanpool; and for developing innovative energy generation techniques, such as biomass, wind, and photovoltaics. The budget also would restore and rehabilitate national parks, forests, and public lands and facilities; expand efforts to restore and protect the water quality of rivers and lakes; continue efforts to double the pace of Superfund clean-ups; extend the Brownfields initiative to promote local cleanup and redevelopment; better protect endangered species; continue to restore Florida's Everglades and California's Bay-Delta and protect Yellowstone National Park and California's Headwaters Forest; improve the roads through national parks; and expand the public's access to information about environmental conditions in their neighborhoods.

Research: The President has sought to tap the full potential of our boundless future by investing heavily in basic and applied research. Along with increasing funds for biomedical research at the National Institutes of Health, the budget would promote science and engineering research at the National Science Foundation; support space-related activities

that enhance our knowledge of Earth; invest in Federal-private ventures to more quickly develop cutting-edge technologies that create jobs; strengthen university-based research; invest in environmental research on safe food and clean air and water; expand support for energy efficiency and renewable energy programs; enable Americans to travel more safely, more quickly, and more efficiently; and put commercial industry's technical know-how and economies of scale to work for national defense.

Innovating to Invest

Challenging times demand innovative solutions, and the budget meets the challenge by proposing three new investment funds for America—for research, the environment, and transportation—that will focus attention on these critical priorities. Together, the funds provide \$75.5 billion, a \$4.7 billion increase over the 1998 level for the programs they contain. Because the funds rely on budget offsets to help finance the spending, they, in effect, apply pay-as-you-go principles to discretionary spending.

The funds are:

- The Research Fund for America, which includes a broad range of investments in knowledge, including programs of the National Institutes of Health, the Centers for Disease Control and Prevention, the National Science Foundation, the National Aeronautics and Space Administration, the Energy Department, the Commerce Department's National Institute of Standards and Technology, Agriculture Department research programs, the multi-agency Climate Change Technology Initiative, and other programs. The budget finances this Fund, in part, through receipts from tobacco legislation and savings in mandatory programs.
- The Environmental Resources Fund for America, which encompasses the multi-agency Clean Water Initiative; the new Land, Water, and Facility Restoration Initiative of the Interior and Agriculture Departments; the Agriculture Department's water and wastewater program for rural communities; and the Environmental Protection Agency's programs for cleaning up

hazardous waste sites (within the Superfund) and upgrading clean water and safe drinking water infrastructure. The budget finances the Fund, in part, through an extension of Federal taxes that support the Superfund.

- The Transportation Fund for America, which includes the Transportation Department's highway, highway safety, and transit programs; the Flight 2000 free flight demonstration program; and the Federal Aviation Administration's programs, including Airport Grants. The budget finances the Fund, in part, through a new Federal aviation user fee.

Looking Ahead

In policy-making terms, the fiscal ground has shifted dramatically in Washington. No longer will the deficit hover like a dark cloud over all debate and decisions. No longer will it serve as a symbol of fiscal incompetence. No longer will it sap the public's confidence in its national leaders.

Five years into this Administration, the Nation has turned the corner. A budget that was out of control is now headed toward balance while investing in the American people and reflecting their values. As a result, an economy that was adrift is now strong, with the fundamentals in place to herald an era of continuing prosperity. A Government that lacked direction is now focused on providing better service, more efficiently, at lower cost.

To be sure, challenges remain on the fiscal front. For one thing, the path to balance is predicated on a continued adherence to budget discipline, as framed first by the 1993 economic program and, more recently, by the BBA. For another, the challenge of ensuring the financial solvency of Social Security and Medicare, on which tens of millions of Americans rely, stands not too far into the future.

In the public and private sectors, meanwhile, prospects for a budget surplus are spurring a wide array of ideas about how to use it. At this point, the Government has not yet reached the surplus milestone, and the

President believes strongly that “we should not spend a surplus that we don’t yet have.”

More specifically, he believes the Administration and Congress should not spend a budget surplus for any purpose until we

have a solution to the long-term financing challenge facing Social Security. With that in mind, the budget proposes a reserve for the projected surpluses for the years 1999 and beyond.